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Japan's Trade Surplus Jumped In 1991 ... Or Did It?

Japan's dollar-denominated customs-clearance trade figures for 1991 seem to send a clear message. The overall surplus jumped 50 percent to $78.2 billion, a ballooning apparently confirmed when expressed in yen (see Tables 1-2). A lesson that appears obvious — because the same figures showed an increase in every quarter of 1991 compared to a year earlier — is that the four-year decline in the Japanese surplus is at an end and the Japanese trade juggernaut is back in business.

The data fall short, however, of making prophets of those analysts who had predicted that Japan's aggregate trade surplus would hit an all-time high as measured in dollars. Furthermore, a closer look at the numbers reveals that the situation is not nearly as bleak as it appears at first glance for those on both sides of the Pacific who would like to see a continued reduction in the Japanese surplus. Clarification requires separating changes in the physical volume of the import and export flows from changes in prices. In 1991 the volume of Japanese exports rose 3.2 percent, slightly below the 3.3 percent growth in import volume. The upshot is that Japan's price-adjusted trade surplus declined modestly last year. The jump in both the dollar- and the yen-denominated imbalances in 1991 stemmed primarily from export price increases and import price reductions.

A primary reason why import prices were lower last year as compared to 1990 was the rapid — and temporary — run-up in oil prices in the fall of 1990. Those price increases, which had been reversed by early 1991, inflated the dollar and the yen values of imports in 1990, thereby reducing the surplus. In 1991 lower oil prices alone accounted for $5.1 billion or 19.6 percent of the increase in the dollar-denominated surplus.

Table 1: **Japan's Total Trade in Dollar Terms**

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987	$229,221	9.6%	$149,515	18.3%	$79,706
1988	264,917	15.6	187,354	25.3	77,563
1989	275,175	3.9	210,847	12.5	64,328
1990	286,948	4.3	234,799	11.4	52,149
1991 (p)	314,599	9.6	236,367	0.7	78,233
1989: I	68,227	13.2	51,142	14.9	17,085
II	67,602	3.7	51,292	8.5	16,310
III	69,595	3.6	53,048	12.3	16,547
IV	69,751	-3.5	55,364	14.6	14,387
1990: I	66,705	-2.2	54,383	6.3	12,322
II	67,232	-0.5	53,954	5.2	13,278
III	72,189	3.7	56,547	6.6	15,642
IV	80,822	15.9	69,914	26.3	10,908
1991: I	76,384	14.5	61,820	13.7	14,564
II	74,003	10.1	56,253	4.3	17,750
III	79,091	9.6	56,994	0.8	22,098
IV (p)	85,121	5.3	61,300	-12.3	23,821

Table 2: **Japan's Total Trade in Yen Terms**

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987	¥33,315	-5.6%	¥21,737	0.9%	¥11,578
1988	33,939	1.9	24,006	10.4	9,933
1989	37,823	11.4	28,979	20.7	8,844
1990	41,457	9.6	33,855	16.8	7,602
1991 (p)	42,370	2.2	31,851	-5.9	10,519
1989: I	8,705	12.9	6,516	14.6	2,189
II	9,222	13.0	6,997	18.2	2,225
III	9,911	11.0	7,547	20.2	2,363
IV	9,985	9.3	7,919	29.4	2,067
1990: I	9,766	12.2	7,941	21.9	1,825
II	10,449	13.3	8,392	19.9	2,057
III	10,651	7.5	8,364	10.8	2,287
IV	10,592	6.1	9,159	15.7	1,433
1991: I	10,190	4.3	8,251	3.9	1,939
II	10,226	-2.1	7,771	-7.4	2,456
III	10,857	1.9	7,831	-6.4	3,025
IV (p)	11,097	4.8	7,998	-12.7	3,099

Table 3: **Japan's Trade with the United States in Dollar Terms**

(in millions of dollars)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		$83,580	3.9%	$31,491	8.4%	$52,090
1988		89,634	7.2	42,037	33.5	47,597
1989		93,189	4.0	48,246	14.8	44,943
1990		90,322	-3.1	52,369	8.5	37,954
1991 (p)		91,543	1.4	53,094	1.4	38,449
1989:	I	22,726	14.4	11,599	15.0	11,127
	II	22,997	6.4	12,064	15.4	10,933
	III	24,117	4.6	12,462	16.8	11,655
	IV	23,347	-7.0	12,120	12.0	11,227
1990:	I	21,661	-4.7	12,753	9.9	8,908
	II	20,938	-9.0	12,861	6.6	8,077
	III	22,933	-4.9	12,729	2.1	10,204
	IV	24,790	6.2	14,025	15.7	10,765
1991:	I	22,324	3.1	13,247	3.9	9,077
	II	20,309	-3.0	13,446	4.5	6,863
	III	23,715	3.4	13,154	3.3	10,561
	IV (p)	25,195	1.6	13,246	-5.6	11,949

Table 4: **Japan's Trade with the United States in Yen Terms**

(in billions of yen)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		¥12,148	-10.4%	¥4,582	-6.8%	¥7,566
1988		11,487	-5.4	5,388	17.6	6,099
1989		12,816	11.6	6,632	23.1	6,184
1990		13,057	1.9	7,586	14.4	5,471
1991 (p)		12,325	-5.6	7,161	-5.6	5,164
1989:	I	2,899	14.1	1,478	14.6	1,421
	II	3,139	16.0	1,648	25.9	1,491
	III	3,436	12.2	1,773	25.0	1,663
	IV	3,342	5.2	1,733	26.4	1,609
1990:	I	3,171	9.4	1,862	26.0	1,309
	II	3,254	3.7	2,000	21.4	1,254
	III	3,384	-1.5	1,885	6.3	1,498
	IV	3,249	-2.8	1,838	6.1	1,411
1991:	I	2,978	-6.1	1,767	-5.1	1,211
	II	2,807	-13.7	1,857	-7.2	950
	III	3,254	-3.8	1,808	-4.1	1,446
	IV (p)	3,285	1.1	1,728	-6.0	1,557

Japan's relatively weak trade performance in 1991 is evident in a preliminary analysis of changes in import and export market shares last year. While definitive figures are not available, the growth in import volume in 1991 suggests that foreign products probably increased their penetration of the Japanese market since domestic industrial production rose only 2.1 percent against the 3.3 percent rise in import volume. Similarly, Japan's exporters may have given up market share in some overseas markets. For example, dollar-denominated exports to the United States moved up a scant 1.4 percent, while yen-denominated exports dropped 5.6 percent (see Tables 3-4). Assuming that price increases for products destined for the United States were roughly equal to those headed for other foreign markets, the data suggest that the volume of exports to this country fell at least a couple percentage points last year. Given the preliminary figure of a price-adjusted 0.7 percent decline in U.S. gross domestic product last year, it is safe to conclude that Japanese penetration of the American market declined modestly.

Japan's exports to Asia, however, rose impressively by any standard last year, climbing 17.9 percent as measured in dollars. The $104.8 billion worth of goods shipped to Asia (including the People's Republic of China) exceeded those to the United States for the first time in recent memory. Asia already was a larger source for Japanese buyers than the United States, and a 9.5 percent gain in purchases in 1991 — to $73 billion — increased that lead. Last year Asians bought 33.3 percent of Japan's exports and supplied 30.9 percent of its imports. For this reason the 3.2 percent growth in the volume of Japanese exports has to be considered in light of the rapid expansion in Asian economies.

Japan's fourth-quarter worldwide trade figures showed a slightly different pattern than for 1991 as a whole. The period's overall dollar-denominated trade surplus more than doubled compared to October-December 1990. Even the price-adjusted surplus registered a significant increase; exports increased 2.5 percent in real terms against a 1.6 percent rise in the volume of imports. The fourth-quarter import figures no doubt reflected Japan's widening economic slowdown toward the end of last year; in each of the last three months of 1991 industrial production was 1 percent or more below the same period in 1990. Finally, exports to the United States grew slightly by yen and dollar measures, while imports by the same yardsticks declined. The result was a modest increase in Japan's yen- and dollar-denominated surpluses with this country; however, the surplus as measured by volume probably showed a decline, although that type of data is not available.

In short, the increase in Japan's dollar-denominated surplus in 1991 was rooted in price changes for such commodities as oil but also reflected sluggish economic activity in Japan and its trading partners. Weakening conditions in Japan tended to drive down import demand, a trend that appeared to grow more pronounced as the year progressed. While American and European import demand also took a hit from macroeconomic conditions, thus depressing Japanese exports, Asian demand for Japanese goods increased substantially. This combination pushed the dollar-denominated trade surplus up significantly even while the price-adjusted surplus was declining.

These trends may become clearer this year. On the plausible assumption that average economic growth in Europe, North America and Asia outside Japan will exceed that of Japan in 1992, Tokyo could find itself reporting a growing trade surplus as measured both in dollars and volume this year.

Douglas Ostrom

Miyazawa Scores — Then Loses — Diplomatic Points

To many observers it came as no surprise that Prime Minister Kiichi Miyazawa, who brought to office last November an impressive array of foreign policy and economic credentials, would articulate Tokyo's interest and willingness to raise its international political profile. Attending the unprecedented summit January 30-31 of the five permanent and 10 rotating members of the United

clearly pushed cooperation on certain matters forward, resolving the questions of early consultation and solicitation of foreign participation probably would smooth the way for future efforts.

Jon Choy

Politics Complicate MITI's Car Quota Decision

Transpacific politics have kept the cap on Japan's U.S.-bound car shipments in place since at least 1988. The nine Japanese motor vehicle exporters know this; so do the Big Three U.S. car and truck manufacturers, the United Auto Workers union and automotive-state legislators on Capitol Hill. Even Ministry of International Trade and Industry policymakers will concede that the economic rationale for limiting car exports to the United States had disappeared by the late 1980s, eliminated by weakening market conditions and rising North American production of the best-selling Japanese models. Japan's automotive exporters last filled the aggregate 2.3-million-unit quota in FY 1986. In the year through March 1988 they missed it by 3.7 percent or 85,851 cars. By FY 1990 the margin of undershipment had reached 19.6 percent, the equivalent of 450,369 units. During the current 12-month restraint period exports could be 28 percent or so under the ceiling, or about 646,000 units short, if April-November 1991 shipment trends hold up through March.

While these numbers are a decisive case for ending the restraints, automotive industry analysts and trade watchers on both sides of the Pacific take another year of managed trade in cars as a given. In their view the 1991 sales results for General Motors Corp., Ford Motor Co. and Chrysler Corp. and the consensus 1992 forecast for the U.S. car market make continued limits inevitable.

By any yardstick last year was a disaster for the three American automotive makers. Overall U.S. car sales contracted 12 percent to less than 8.2 million units, the smallest total since the recession year of 1982 and 28.4 percent below 1986's record performance (see Table). Detroit gladly would have traded 1982's volume for 1991's since already hard-hit sales of Big Three-badged cars dropped another 14.2 percent to fewer than 5.3 million units — a level last seen in the late 1950s. As if that was not bad enough, GM, Ford and Chrysler sold only 4.6 million-plus cars made in their own North American or Mexican plants.

Japanese nameplates were not immune to U.S. market conditions last year. After bucking 1990's overall drop, sales of Japanese-badged cars fell 4.4 percent to under 2.5 million units. None of Japan's big manufacturers escaped the downturn, but seven of the nine companies selling cars here gained market share. Those gains gave Japanese nameplates another 2.4 percentage points of market share, pushing them across what most analysts consider to be the politically dangerous 30 percent market share line to 30.2 percent.

U.S. car sales are expected to strengthen in 1992, particularly in the second half, but many industry watchers think American car manufacturers are in for another grim year. That outlook plus the anti-Japan rhetoric recently heard in Detroit and on Capitol Hill put MITI decisionmakers in a tough spot. They apparently realize that a simple extension of the 2.3-million-unit cap on Japanese car exports to the United States will not work politically this year, but they see drawbacks to the primary alternative — cutting the quota. First and foremost, lowering the ceiling could send the wrong signal to the United States. It might imply that Japan's automotive industry is the cause of Detroit's problems or at least bears part of the responsibility. More troubling, such a move could encourage the drive for a cap on Japan's overall share of the U.S. car market (see *JEI Report* No. 2B, January 17, 1992) by suggesting that Tokyo is ready to cut a deal.

Then there is the question of the size of the cut. The most frequently cited figure is 500,000 units. MITI officials and Japanese automotive industry executives no doubt recognize that trimming the quota to 1,800,000 cars would be dismissed in the United States as an empty gesture because that cutback would have no effect on trade. The reaction probably would be the same if the quota were

U.S. Retail Car Sales, 1983-91

(units)

Manufacturer/Seller	1983	1984	1985	1986	1987	1988	1989	1990	1991
Japanese Imports									
Toyota Motor Corp. (incl. Lexus)	542,877	513,820	577,181	601,939	562,274	584,284	464,551	430,668	409,398
Honda Motor Co., Ltd. (incl. Acura)	350,670	374,819	406,413	458,268	421,688	393,360	393,630	390,761	321,270
Nissan Motor Co., Ltd. (incl. Infiniti)	521,902	485,298	535,372	493,549	405,996	360,745	397,094	336,366	300,052
Mazda Motor Corp.	173,388	169,666	211,093	222,716	206,354	219,002	184,583	153,055	144,287
Mitsubishi Motors Corp.	32,755	39,104	49,734	49,436	67,954	69,975	79,751	99,630	92,383
Fuji Heavy Industries, Ltd. (Subaru)	156,840	157,385	174,100	183,242	175,864	155,946	136,112	92,729	55,707
Isuzu Motors Ltd.	20,731	17,233	26,953	38,910	39,587	24,520	16,296	5,837	13,301
Daihatsu Motor Co., Ltd.	0	0	0	0	0	11,460	15,111	10,630	6,202
Suzuki Motor Co., Ltd.	0	0	0	0	0	524	6,008	6,525	4,846
Isuzu Motors Ltd./General Motors Corp.	0	2,077	53,593	99,380	76,852	68,347	62,877	86,257	77,186
Mitsubishi Motors Corp./Chrysler Corp.	103,569	91,718	105,213	135,528	120,337	113,800	98,280	65,263	65,524
Suzuki Motor Co., Ltd./General Motors Corp.	0	10,927	31,267	60,983	60,359	48,088	52,792	42,488	13,882
Domestic Makes*									
General Motors Corp.**	4,053,561	4,587,508	4,607,458	4,532,798	3,555,538	3,641,542	3,276,941	3,141,157	2,783,692
Ford Motor Co.***	1,571,321	1,979,317	2,070,392	2,066,507	2,019,783	2,205,636	2,041,808	1,845,895	1,527,168
Chrysler Corp.****	1,034,973	1,177,253	1,263,385	1,246,311	962,057	1,062,782	917,506	795,096	636,994
Volkswagen of America Inc.	85,045	73,838	77,535	73,912	61,064	24,939	0	0	0
Honda of America Manufacturing, Inc.	50,402	133,601	145,976	235,247	316,618	375,625	389,472	464,118	482,097
New United Motor Manufacturing Inc./ General Motors Corp.	0	0	35,594	170,507	134,956	96,868	89,710	109,631	98,433
New United Motor Manufacturing Inc./ Toyota Motor Sales USA Inc.	0	0	0	7,281	44,853	58,579	81,201	135,953	141,612
Nissan Motor Manufacturing Corp. U.S.A.	0	0	39,794	52,602	119,678	112,125	103,134	109,575	112,800
Mazda Motor Manufacturing (USA) Corp./ Mazda Motor of America, Inc.	0	0	0	0	1,671	31,331	41,584	72,657	77,356
Mazda Motor Manufacturing (USA) Corp./ Ford Motor Co.	0	0	0	0	0	77,763	133,650	103,062	76,295
Toyota Motor Manufacturing, U.S.A., Inc.	0	0	0	0	0	13,775	131,187	212,587	191,011
Diamond-Star Motors Corp./ Mitsubishi Motor Sales of America, Inc.	0	0	0	0	0	0	32,018	49,877	69,496
Diamond-Star Motors Corp./Chrysler Corp.	0	0	0	0	0	0	28,243	69,441	66,334
Subaru-Isuzu Automotive Inc./ Subaru of America, Inc.	0	0	0	0	0	0	0	15,818	49,345
CAMI Automotive Inc./American Suzuki Motor Corp.	0	0	0	0	0	0	0	0	684
Domestic Makes Built by Big Three	6,659,855	7,744,078	7,905,641	7,675,109	6,402,422	6,735,329	5,984,652	5,500,014	4,706,792
Domestic Makes Built by Japanese Affiliates	50,402	133,601	221,364	465,637	617,776	766,066	1,030,199	1,342,719	1,365,463
Total Japanese Imports	1,902,732	1,862,047	2,170,919	2,343,951	2,137,265	2,050,051	1,907,085	1,720,209	1,504,038
Total Imports	2,357,652	2,379,567	2,777,319	3,197,836	3,111,851	3,017,230	2,698,274	2,453,108	2,104,055
Total Domestic Makes	6,795,302	7,951,517	8,204,721	8,214,662	7,081,262	7,526,334	7,014,851	6,842,733	6,072,255
Total Market	9,152,954	10,331,084	10,982,040	11,412,498	10,193,113	10,543,564	9,713,125	9,295,841	8,176,310
Market Share of Japanese Imports	20.8%	18.0%	19.8%	20.5%	21.0%	19.4%	19.6%	18.5%	18.4%
Market Share of Japanese Imports and Domestic Makes Built by Japanese Affiliates	21.3%	19.3%	21.8%	24.6%	27.0%	26.7%	30.2%	33.0%	35.1%

*Includes cars built in Canada by the Big Three as well as by Japanese transplants and cars produced in Mexico by the Big Three.
**Starting in 1985 includes the Geo Nova/Prizm made by New United Motor Manufacturing Inc.
***Starting in 1988 includes the Ford Probe made by Mazda Motor Manufacturing (USA) Corp.
****Starting in 1989 includes the Plymouth Laser and the Eagle Talon and Summit made by Diamond-Star Motors Corp.

Source: *Automotive News*

returned to its original (FY 1981-FY 1983) level of 1,680,000 units since exports in the April 1991-March 1992 period are likely to come in around that number. A lower volume would create administrative difficulties for MITI officials in charge of making company-by-company quota allocations as well as planning problems for corporate marketing managers, but a figure below FY 1991's expected shipment level could send an acceptable message to the U.S. automotive industry and its supporters on Capitol Hill — one of shared sacrifice.

Susan MacKnight

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.